

100

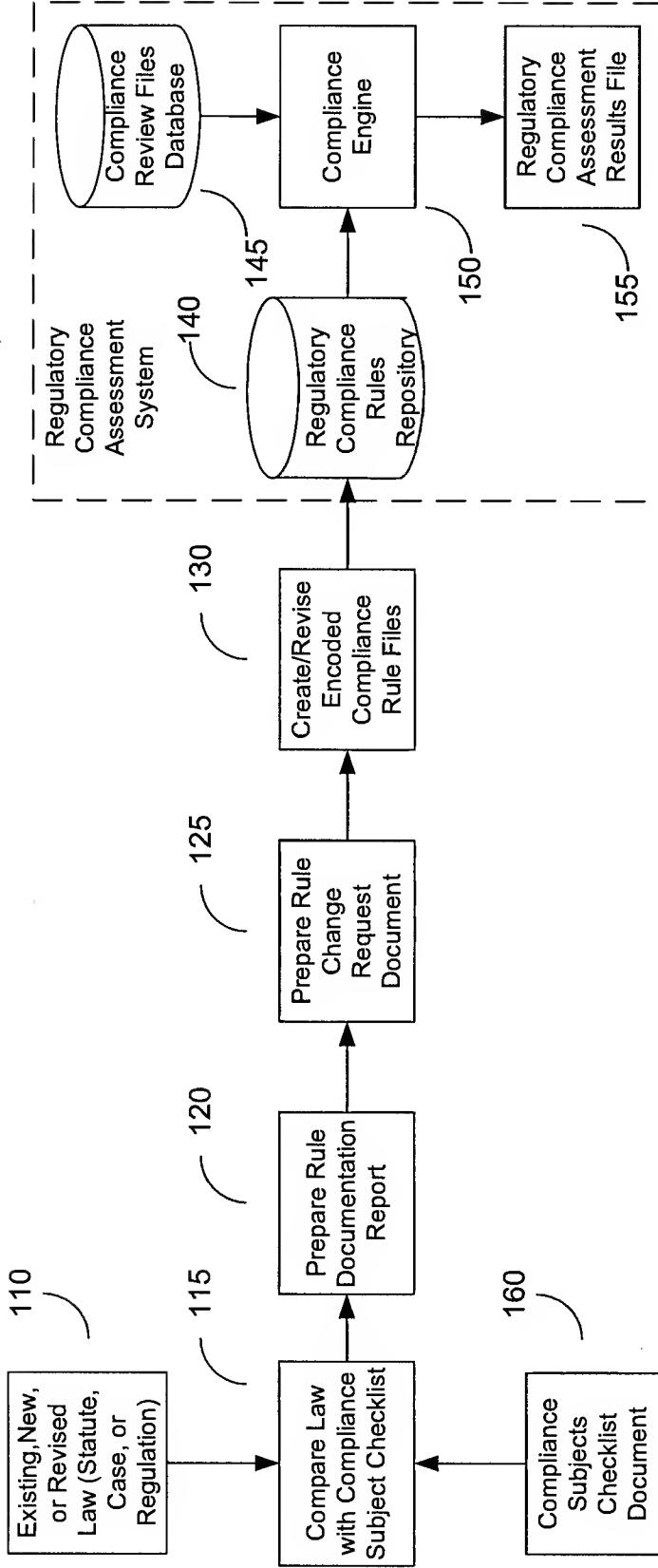
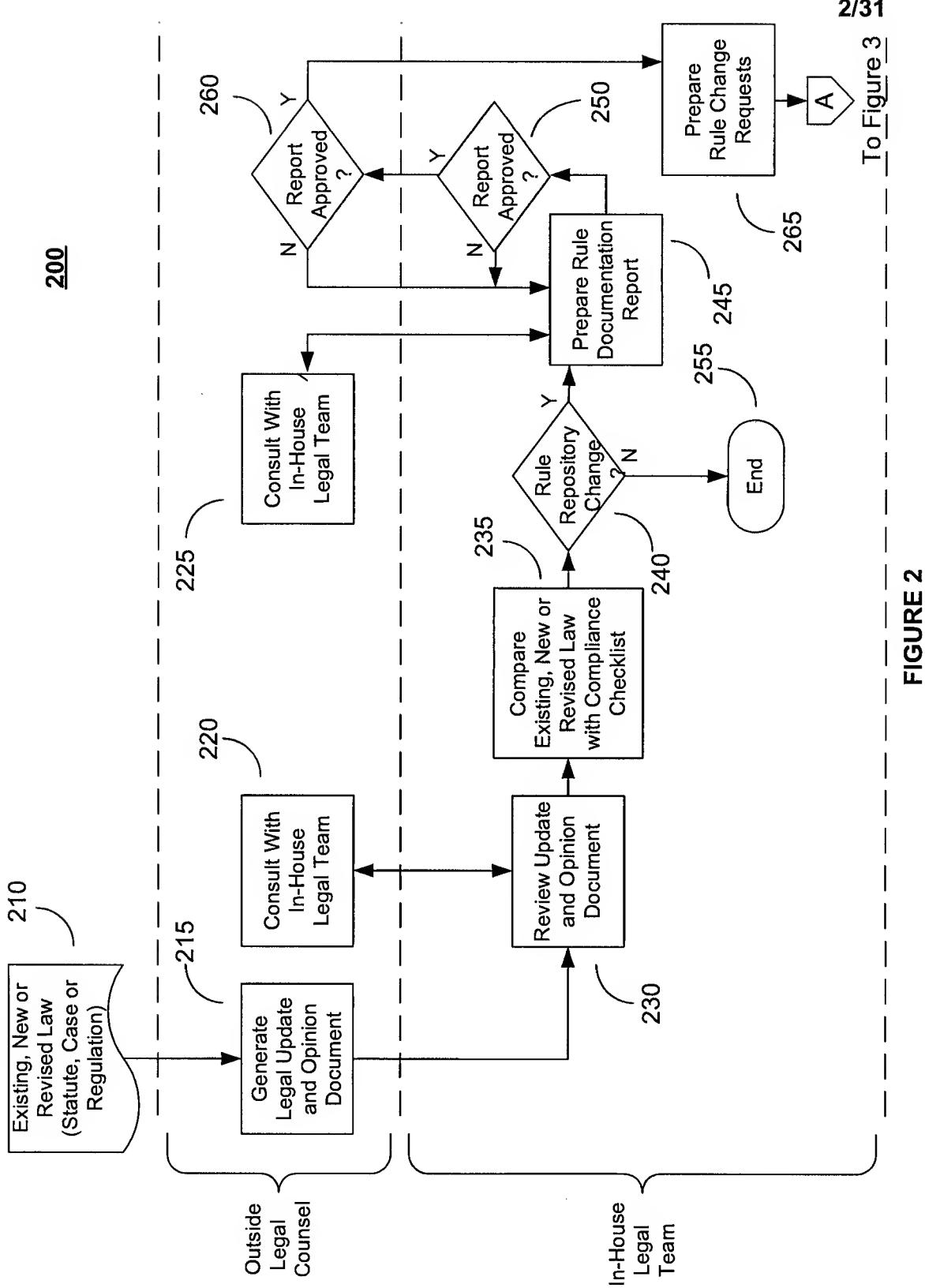


FIGURE 1

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To Figure 3

FIGURE 2

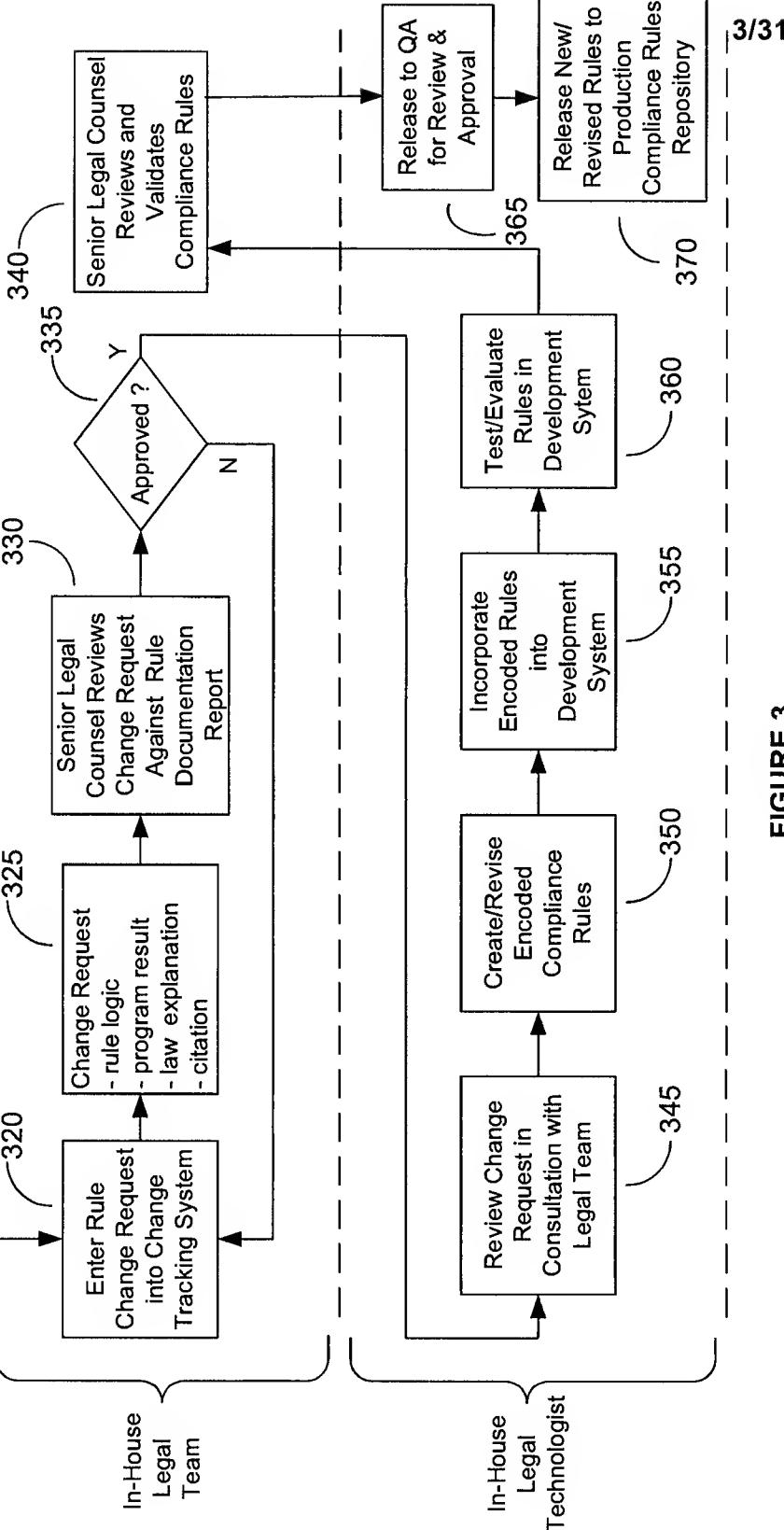
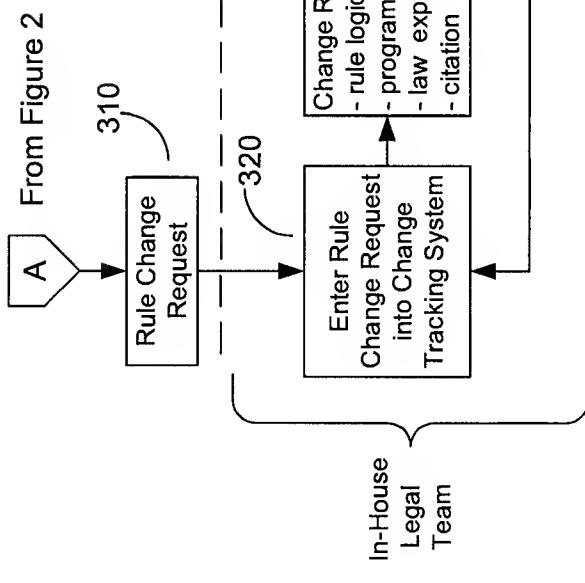


FIGURE 3

Compliance Subjects Checklist

Consumer Residential Mortgage Lending

4/31

1. Governing Law

- 1.1. State Laws Governing Consumer Residential Mortgage Lending
- 1.2. "High-Cost" or "Covered Loan" Provisions
 - 1.2.1. State
 - 1.2.2. Local

2. Interest Rate/Finance Charge

- 2.1. Federal Preemption Applicable
- 2.2. Variable Rate Restrictions
- 2.3. Maximum Interest Rate/Finance Charge
- 2.4. Limitations on Interest Rate Accrual
- 2.5. Interest Adjustment/Prepaid Interest
- 2.6. Interest Due on Prior Loan

3. Calculation of Finance Charges

- 3.1. Number of Days in a Year Calculation

4. Payment/Term Limitations

- 4.1. Balloon Payment Restrictions
- 4.2. Negative Amortization Restrictions
- 4.3. Days to First Payment Requirements
- 4.4. Loan Term Limits
- 4.5. Ability to Repay

5. Loan Amount Limitations

- 5.1. Restrictions on Securing Loans with Real Property

6. Late Charges

- 6.1. Federal Preemption Applicable
- 6.2. Late Charge Limitations
- 6.3. Grace Period Requirements

7. Prepayment

- 7.1. Federal Preemption Application
- 7.2. Prepayment Penalty Restrictions

8. Escrow/Impound Requirements

- 8.1. Property Taxes
- 8.2. Property Insurance Premiums
- 8.3. Home Improvement/Construction Holdback

9. Origination Fees

- 9.1. Administration Fee
- 9.2. Application Fee
- 9.3. Application Deposit
- 9.4. Appraisal Fee
- 9.5. Appraisal Review Fee
- 9.6. Desk Review Fee
- 9.7. Field Review
- 9.8. Assumption Fee
- 9.9. Attorneys' Fees
- 9.10. Brokers Fees

FIGURE 4A

9.11. Servicing Release Premium
9.12. Yield Spread Premium/Rebate
9.13. Buyer's Protection Plan
9.14. Commitment (Rate Lock) Fee
9.15. Courier Fee
9.16. Attendance/Pickup Fee
9.17. Credit Report Fee
9.18. Document Preparation Fee
9.19. Document Redraw Fee
9.20. Escrow Service Fee
9.21. Filing Fees
9.22. Flood Certification Fee
9.23. Funding Fee
9.24. HOA Certification Forwarding/Handling Fee
9.25. Inspection Fee
9.26. Credit Disability Premium
9.27. Credit Life Premium
9.28. Credit Unemployment Premium
9.29. Earthquake Insurance Premium
9.30. Flood Insurance Premium
9.31. Hazard Insurance Premium
9.32. Mortgage Insurance Premium
9.33. Windstorm Insurance Premium
9.34. Interest Rate Buy Down Fee
9.35. Loan Discount
9.36. Loan Origination Fee
9.37. Mortgage Insurance Application Fee
9.38. Notary Fees
9.39. Payoff Demand Fee
9.40. Pest Inspection Fee
9.41. Processing Fee
9.42. Recording Fees-Mortgage/Deed of Trust
9.43. Recording Fees-Assignment
9.44. Reconveyance Fee
9.45. Settlement or Closing Fee
9.46. Survey Fee
9.47. Tax Service Contract Fee
9.48. Title Endorsements
9.49. Abstract of Title Search
9.50. Title Examination
9.51. Title Insurance Binder
9.52. Title Insurance
9.53. Lender's Title Policy
9.54. Owner's Title Policy
9.55. Title Search
9.56. Underwriting Fee
9.57. VA Funding Fee
9.58. Verification Fee

FIGURE 4B

9.59 Loan Warehousing Fee
9.60 Wire Transfer Fee
9.61 GA Residential Mortgage Act Per Loan Fee
9.62 Intangible Tax
9.63 Recordation Tax/Mortgage Tax
9.64 Doc. Tax Stamps/Transfer Taxes-City/County City/Count
9.65 Doc. Tax Stamps/Transfer Taxes-State
9.66 Documentary Tax Stamps for Note-State
9.67 Village Property Tax/County Property Tax
9.68 2Comply Audit Fee

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Licensing Subjects Checklist

1. Licensing

1.1. License Requirements

- 1.1.1. Lending
- 1.1.2. Brokering
- 1.1.3. Other

1.2. Contact Information for Licensing Agency

1.3. Exemptions from Licensing

- 1.3.1. Are there any exemptions from the licensing requirements of the Act?
- 1.3.2. Must the exempt entity file an exemption form or statement with the state?
- 1.3.3. Is an exempt entity exempt from the substantive requirements of the Act?

1.4. Licensee Activities

- 1.4.1. May a licensee act as a mortgage broker (accept applications and process loans that will be closed, funded, and serviced by a different lender)?
- 1.4.2. May a licensee originate a loan (i.e. start the ball rolling for the loan – for wholesale loans, a broker would be the originator; for retail loans the lender closing the loan would be the originator)?
- 1.4.3. May a licensee act as a lender for a mortgage loan (accept applications (either directly or through a broker), close, and fund the loan)?
- 1.4.4. Is a licensed lender required to deal only with a licensed mortgage broker?
- 1.4.5. May a licensee purchase closed loans?
- 1.4.6. May a licensee sell loans?

FIGURE 4C

**Arkansas Code
Title 23, Chapter 53.
Arkansas Home Loan Protection Act.**

23-53-101. Title.

23-53-102. Legislative intent.

23-53-103. Definitions.

23-53-104. Prohibited acts and practices regarding high-cost home loans.

(a) **Insurance and Debt Cancellation Agreements.** No creditor making a high-cost home loan shall finance, directly or indirectly, any credit life, credit disability, credit unemployment, or credit property insurance or any other life or health insurance or any payments directly or indirectly for any debt cancellation or suspension agreement or contract, except that insurance premiums or debt cancellation or suspension fees calculated and paid on a monthly basis shall not be considered financed by the creditor.

(b) **Flipping.**

(1) No creditor may engage in the unfair act or practice of "flipping" a home loan.

(2) "Flipping" a loan is the making of a high-cost home loan to a borrower that refinances an existing home loan when the new loan does not have reasonable, tangible net benefit to the borrower considering all of the circumstances, including the terms of both the new and refinanced loans, the cost of the new loan, and the borrower's circumstances. In addition, home loan refinancings shall be presumed to be flippings if:

(A) The primary tangible benefit to the borrower is an interest rate lower than the interest rate or rates on debts satisfied or refinanced in connection with the home loan, and it will take more than four (4) years for the borrower to recoup the costs of the points and fees and other closing costs through savings resulting from the lower interest rate; or

(B) The new loan refinances an existing home loan that is a special mortgage originated, subsidized, or guaranteed by or through a state, tribal, or local government or nonprofit organization, that either bears a below-market interest rate at the time the loan was originated or has nonstandard payment terms beneficial to the borrower, such as payments that vary with income, are limited to a percentage of income, or where no payments are required under specified conditions, and where, as a result of the refinancing, the borrower will lose one (1) or more of the benefits of the special mortgage.

(c) **Recommendation of Default.** No creditor shall recommend or encourage default of an existing loan or other debt before and in connection with the closing or planned closing of a high-cost home loan that refinances all or any portion of the existing loan or debt.

FIGURE 5A

(d) Call Provision Prohibition.

(1) No high-cost home loan may contain a provision that permits the creditor in its sole discretion to accelerate the indebtedness.

(2) This subsection does not prohibit acceleration of the loan in good faith due to the borrower's failure to abide by the material terms of the loan.

(e) Fee For Balance.

(1) No creditor nor any assignee may charge a fee in excess of twenty dollars (\$20.00) for transmitting to any person the balance due to pay off a high-cost home loan or to provide a release upon prepayment.

(2) Payoff balances shall be provided within a reasonable time, but in any event, no more than seven (7) business days after the request.

(f) No Balloon Payment.

(1) A high-cost home loan having a term of less than ten (10) years may not include terms under which the aggregate amount of the regular periodic payments would not fully amortize the outstanding principal balance.

(2) This prohibition does not apply when the payment schedule is adjusted to account for the seasonal or irregular income of the obligor or if the purpose of the loan is a bridge loan connected with or related to the acquisition or construction of a dwelling intended to become the obligor's principal dwelling.

(g) No Negative Amortization. No high-cost home loan may include payment terms under which the outstanding principal balance will increase at any time over the course of the loan because the regular periodic payments do not cover the full amount of interest due.

(h) No Increased Interest Rate.

(1) No high-cost home loan may contain a provision that increases the interest rate after default.

(2)(A) This subsection does not apply to interest rate changes in a variable rate loan otherwise consistent with the provisions of the loan documents.

(2)(B) The change in the interest rate is not triggered by the event of default or the acceleration of the indebtedness.

(i) No Advance Payments. No high-cost home loan may include terms under which more than two (2) periodic payments required under the loan are consolidated and paid in advance from the loan proceeds provided to the borrower.

(j) No Mandatory Arbitration Clause. No high-cost home loan may be subject to a mandatory arbitration clause that limits in any way the right of the borrower to seek relief through the judicial process for any or all claims and defenses the borrower may have against the creditor, broker, or other party involved in the loan transaction.

(k) No Lending Without Homeownership Counseling. A creditor may not make a high-cost home loan without first receiving certification from a third-party counselor approved by the Department of Housing and Urban Development, a state housing financing agency, or the regulatory agency that has jurisdiction over the creditor, that the borrower has received counseling on the advisability of the loan transaction.

FIGURE 5B

(l) No Lending Without Due Regard to Repayment Ability. A creditor shall not make a high-cost home loan unless the creditor reasonably believes at the time the loan is consummated that one (1) or more of the obligors, when considered individually or collectively, will be able to make the scheduled payments to repay the obligation based upon a consideration of their current and expected income, current obligations, employment status, and other financial resources other than the borrower's equity in the dwelling that secures repayment of the loan.

(m) No Financing Prepayment Fees or Penalties. In making a high-cost home loan, a lender may not directly or indirectly finance any prepayment fees or penalties payable by the borrower in a refinancing transaction if the lender or an affiliate of the lender is the noteholder of the note being refinanced.

(n) Home-Improvement Contracts. A creditor may not pay a contractor under a home-improvement contract from the proceeds of a high-cost home loan unless:

(1) The creditor is presented with a signed and dated completion certificate showing that the home improvements have been completed; and

(2) The instrument is payable to the borrower or jointly to the borrower and the contractor, or, at the election of the borrower, through a third-party escrow agent in accordance with terms established in a written agreement signed by the borrower, the creditor, and the contractor before the disbursement.

(o) No Modification or Deferral Fees. A creditor may not charge a borrower any fees or other charges to modify, renew, extend, or amend a high-cost home loan or to defer any payment due under the terms of a high-cost home loan.

History. Acts 2003, No. 1340, § 3[4].

23-53-105. Preservation and enforcement of claims and defenses - No subterfuge.

23-53-106. Enforcement.

FIGURE 5C

**Arkansas Code
Title 4, Chapter 57.
Interest And Usury.**

4-57-101. Calculation of interest.

(a) Whenever in any statute, deed, written or verbal contract, or in any public or private instrument whatever, any certain interest is or may be mentioned, and no period of time is stated for the rate of interest to be calculated, interest shall be calculated at the rate mentioned by the year, in the same manner as if the words "per annum" or "by the year" had been added to the rate.

(b)(1) For the purpose of calculating interest, a month shall be considered the twelfth part of a year, and as consisting of thirty (30) days.

(2) Interest for any number of days less than a month shall be estimated by the proportion which the number of days shall bear to thirty (30).

(c)(1) In calculating interest where partial payments may have been made, the interest shall be calculated to the time when the first payment shall have been made, and the payment shall be applied to the payment of the interest. If the payment exceeds the interest, the balance shall be applied to diminish the principal, and the same course shall be observed in all subsequent payments.

(2) However, in no case when a payment falls short of paying the interest due at the time of making the payment shall the balance of the interest be added to the principal.

History. Rev. Stat., ch. 80, §§ 10-12; C. & M. Dig., §§ 7357-7359; Pope's Dig., §§ 9396-9398; A.S.A. 1947, §§ 68-605 - 68-607.

4-57-102. Reservation or discounting of interest permitted

4-57-103. Statement of principal and interest.

4-57-104. Maximum rate of interest permitted.

4-57-105. Usurious interest prohibited

4-57-106. Usurious bonds, bills, conveyances, etc., void.

4-57-107. Usurious contracts, liens, and conveyances.

4-57-108. Usurious consumer loans or credit sales - Award of Attorney's fees.

FIGURE 6

ARKANSAS –Compliance Rule Documentation Report

JURISDICTION	ARKANSAS						
TOPIC	Governing Law						
SUBJECT	State Laws Governing Consumer Residential Mortgage Lending						
GENERAL APPLICATION	The 2comply Expert System (THE SYSTEM) applies the following state laws to consumer residential mortgage loans in Arkansas. THE SYSTEM treats each of these laws as a separate "Act": Arkansas Interest and Usury Provisions (Ark. Code Ann. § 4-57-101 et seq.) Arkansas Mortgage Loan Companies and Loan Brokers Act ("MLCLB") (Ark. Code Ann. §§ 23-39-101 et seq.) Arkansas Home Loan Protection Act (Ark. Code Ann. §§ 23-53-101 et seq.) THE SYSTEM assumes that all loans it reviews are made to natural persons primarily for personal, family, or household purposes.						
ACT	Interest and Usury Provisions						
Program Result	THE SYSTEM applies the provisions of the Interest and Usury Provisions to all loans.						
Explanation	The Arkansas Interest and Usury Provisions address the maximum interest rates that may be charged in Arkansas. Under the Interest and Usury Law, the parties to any contract may agree in writing for the payment of interest not exceeding the applicable rate set forth in Arkansas Constitution, Article 19, § 13, on money due or to become due. Please note that since the provisions of the Arkansas Constitution affecting loans secured by Arkansas real property are limited to the provisions incorporated and cross referenced in the Interest and Usury Provisions, THE SYSTEM does not treat the Arkansas Constitution as a separate "Act."						
Citation	Ark. Code Ann. § 4-57-101; Ark. Code Ann. §§ 23-39-101 et seq.; Ark. Const. Art. 19, § 13						
Effective Date	N/A						
Counsel Approval	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Law Firm Name: Hudson Baker LLP</td> <td style="width: 50%;">Reviewing Attorney's Name: Alicia Taylor</td> </tr> <tr> <td>Email:</td> <td>Phone #: (110) 536-9099</td> </tr> <tr> <td>Approval Date: 8/8/03</td> <td></td> </tr> </table>	Law Firm Name: Hudson Baker LLP	Reviewing Attorney's Name: Alicia Taylor	Email:	Phone #: (110) 536-9099	Approval Date: 8/8/03	
Law Firm Name: Hudson Baker LLP	Reviewing Attorney's Name: Alicia Taylor						
Email:	Phone #: (110) 536-9099						
Approval Date: 8/8/03							

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FIGURE 7A

Mortgage Loan Companies and Loan Brokers Act ("MLCLB")			
ACT	Program Result	THE SYSTEM applies the provisions of the Mortgage Loan Companies and Loan Brokers Act ("MLCLB") to all loans secured by real property located in Arkansas.	
	Explanation	Arkansas regulates mortgage lenders, brokers, and servicers through its Mortgage Loan Companies and Loan Brokers Act ("MLCLB"), Ark. Code Ann. §§ 23-39-101 et seq. The MLCLB provides that it is unlawful for any person to transact business in Arkansas as a mortgage loan company without first filing an application with the Arkansas Securities Commissioner and obtaining a registration certificate under the Act. Ark. Code Ann. § 23-39-301. (See the Arkansas Licensing Review for more detail). The MLCLB, however, contains few restrictions on substantive lending practices. Most full service mortgage companies are exempt from its provisions.	
	Citation	Ark. Code Ann. §§ 23-39-101 et seq.	
	Effective Date	N/A	
	Counsel Approval	Law Firm Name: Hudson Baker LLP Email:	Reviewing Attorney's Name: Alicia Taylor Phone #: (110) 536-9099
		Approval Date: 8/8/03	
ACT	Arkansas Home Loan Protection Act		
	Program Result	See "High-Cost" or "Covered Loan" Provisions section of this report.	
	Explanation	See "High-Cost" or "Covered Loan" Provisions section of this report.	
	Citation	See "High-Cost" or "Covered Loan" Provisions section of this report.	
	Effective Date	See "High-Cost" or "Covered Loan" Provisions section of this report.	
	Counsel Approval	Law Firm Name: Hudson Baker LLP Email:	Reviewing Attorney's Name: Alicia Taylor Phone #: (110) 536-9099
		Approval Date: 8/8/03	

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FIGURE 7B

JURISDICTION	ARKANSAS		
TOPIC	Payment/Term Limitations		
SUBJECT	Balloon Payment Restrictions		
ACT	Arkansas Home Loan Protection Act		
Program Result	THE SYSTEM will fail a high cost home loan if the term of the loan is less than 120 months and the loan provides for a balloon payment.		
Explanation	The Arkansas Home Loan Protection Act provides that a high cost home loan having a term of less than 10 years may not include terms under which the aggregate amount of the regular periodic payments would not fully amortize the outstanding principal balance.		
Citation	Ark Code Ann. § 23-53-104(f) (1)		
Effective Date	N/A		
Counsel Approval	Law Firm Name: Hudson Baker LLP Email: Approval Date: 8/11/03	Reviewing Attorney's Name: Alicia Taylor Phone #: (110) 536-9099	
ACT	All Other Acts		
Program Result	THE SYSTEM does not apply any rules regarding balloon payments.		
Explanation	None of the other Acts applied by THE SYSTEM in Arkansas prohibit or restrict balloon payments.		
Citation	N/A		
Effective Date	N/A		
Counsel Approval	Law Firm Name: Hudson Baker LLP Email: Approval Date: 8/11/03	Reviewing Attorney's Name: Alicia Taylor Phone #: (110) 536-9099	

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FIGURE 7C

JURISDICTION	ARKANSAS		
TOPIC	Payment/Term Limitations		
SUBJECT	Negative Amortization Restrictions		
ACT	Interest and Usury Provisions		
Program Result	THE SYSTEM will fail a loan that provides for negative amortization.		
Explanation	<p>In no case when a payment falls short of paying the interest due at the time of making the payment may the balance of interest be added to the principal. Ark. Code Ann. § 4-57-101(c)(2). However, there appears to be a liberal interpretation of this statute when read together with Arkansas case law. Arkansas follows the general rule that negative amortization is not usury per se. Grider v. Driver, 46 Ark. 50 (1885). However, it is also well settled that compounding interest will render a contract usurious if it effectively raises the annual rate of interest above the legal rate. Strawn Furniture Company, Inc. v. Austin, 280 Ark. 69, 655 S.W.2d 397 (1983); Phillips-Reynolds Co. v. McIlroy Bank & Trust Co., 261 Ark. 437 (1939); Grider v. Driver, 46 Ark. 50 (1885). The maximum interest rate on subordinate lien loans is the lesser of 5 percentage points over the Federal Reserve discount rate or 17%. Arkansas Constitution, Art. 19, § 13, as interpreted by Bishop v. Linkway Stores, Inc. 280 Ark. 106 (1983).</p>		
Citation	Ark. Code Ann. § 4-57-101(c)(2)		
Effective Date	N/A		
Counsel Approval	Law Firm Name: Hudson Baker LLP Email: Approval Date: 8/11/03	Reviewing Attorney's Name: Alicia Taylor Phone #: (110) 536-9099	

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FIGURE 7D

Arkansas Home Loan Protection Act			
ACT	Program Result	Explanation	
		The Arkansas Home Loan Protection Act provides that no high cost home loan may include payment terms under which the outstanding principal balance will increase at any time over the course of the loan because the regular periodic payments do not cover the full amount of interest due.	
Citation	Ark. Code Ann. § 23-53-104(g)		
Effective Date	N/A		
Counsel Approval	Law Firm Name: Hudson Baker LLP Email: Approval Date: 8/11/03	Reviewing Attorney's Name: Alicia Taylor Phone #: (110) 536-9099	
Arkansas Mortgage Loan Companies and Loan Brokers Act			
ACT	Program Result	Explanation	
		THE SYSTEM does not apply any rules regarding negative amortization.	
Citation	N/A	The Mortgage Loan Companies and Loan Brokers Act does not address negative amortization.	
Effective Date	N/A		
Counsel Approval	Law Firm Name: Hudson Baker LLP Email: Approval Date: 8/11/03	Reviewing Attorney's Name: Alicia Taylor Phone #: (110) 536-9099	

FIGURE 7E

I - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Stop Refresh Search Favorites Media Help

Address: <http://10.21.1.4/CQWebLogon/default.asp>

Operations | Submit Detect Find

Log Off

#	Id	Headline	Status	Submitter	Request Type
1	Prod0000038	Arkansas State Update	Closed	JBuack	License - State Update
2	Prod00000558	Arkansas – Add Home Loan Protection Act	Closed	LHotchkiss	Compliance - New Law
3	Prod00000559	Arkansas – Add Prior Prepayment Financing Warning (High Cost) Rule	Closed	LHotchkiss	Compliance - New Law
4	Prod00000560	Arkansas – Add Balloon Not Allowed (High Cost) Rule	Closed	LHotchkiss	Compliance - New Law
5	Prod00000561	Arkansas – Add No Neg Am (High Cost) Rule	Closed	LHotchkiss	Compliance - New Law
6	Prod00000564	Arkansas – Add No Single Premium Credit Insurance (High Cost) Rule	Closed	LHotchkiss	Compliance - New Law
7	Prod00000565	Arkansas – Add No Single Premium Property Insurance (High Cost) Rule	Closed	LHotchkiss	Compliance - New Law
8	Prod00000580	Arkansas - Add new Phantom Act and Alert	Closed	LHotchkiss	Compliance - New Law
9	Prod00000618	Arkansas - Change Start Date	Closed	LHotchkiss	Compliance - New Law
10	Prod0001239	Arkansas State Update	Closed	JBuack	License - State Update
11	Prod0001362	Arkansas – Add No Neg Am Rule for Interest and Usury Provisions	Closed	LHotchkiss	Compliance - Program Functionality
12	Prod0001363	Arkansas – Add Prepayment Penalty Warning for Interest and Usury Provisions	Closed	LHotchkiss	Compliance - Program Functionality
13	Prod0002109	Arkansas State Update (ML Only)	Closed	JBuack	License - State Update
14	Prod0002748	ADD ARMMaxPPP Amount to Arkansas High Cost "Points and Fees" Calculations	Resolved	ACheek	Compliance - Program Functionality
15	Prod0002760	Arkansas-ADD Fair Mortgage Lending Act	Opened	EFajardo	Compliance - Program Functionality

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FIGURE 8

Main	
ID:	Prod00000560
Status:	Closed
Headline:	Arkansas – Add Balloon Not Allowed (High Cost) Rule
Customer Priority:	
Date Required:	7/15/2003
Description:	

Add a new rule attached to the new Arkansas Home Loan Protection Act that will fail a high cost loan if the term of the loan is less than 10 years and the loan provides for a balloon payment :

If: $\text{LoanTerm} < 120 \text{ AND } (\text{LoanTerm} < \text{AmortizationTerm}, \text{AmortizationType} = \text{'Balloon'})$ is True?

Failure Response: The Arkansas Home Loan Protection Act prohibits a balloon payment in a high cost home loan with a term of less than 10 years.

Program Result: THE SYSTEM will fail a high cost home loan if the term of the loan is less than 120 months and the loan provides for a balloon payment.

Explanation: The Arkansas Home Loan Protection Act provides that a high cost home loan having a term of less than 10 years may not include terms under which the aggregate amount of the regular periodic payments would not fully amortize the outstanding principal balance.

Citation: Ark. Code Ann. § 23-53-104(f)(1)

FIGURE 9

Main	
ID: Prod00000561	Status: Closed
Headline: Arkansas – Add No Neg Am (High Cost) Rule	
Customer Priority:	Date Required: 7/15/2003
Description:	

Add a new rule attached to the new Arkansas Home Loan Protection Act that will fail the loan if it provides for negative amortization:

If (AmortizationType = 'Neg ARM') is True?

Failure Response: The Arkansas Home Loan Protection Act prohibits negative amortization in a high cost home loan.

Program Result: THE SYSTEM will fail a high cost home loan if it provides for negative amortization.

Explanation: The Arkansas Home Loan Protection Act provides that no high cost home loan may include payment terms under which the outstanding principal balance will increase at any time over the course of the loan because the regular periodic payments do not cover the full amount of interest due.

Citation: Ark. Code Ann. § 23-53-104(g)

FIGURE 10

Main	
ID:	Prod00001362
Status:	Closed
Headline:	Arkansas – Add No Neg Am Rule for Interest and Usury Provisions
Customer Priority:	High Date Required: 10/17/2003
Description:	

Under Arkansas' Interest and Usury Provisions, add a "No Negative Amortization" rule to fail the loan if negative amortization is included.

Failure Response: Under the Arkansas Interest and Usury Provisions, in no case when a payment falls short of paying the interest due at the time of making the payment may the balance of interest be added to the principal. Thus, negative amortization is prohibited.

Program Result: THE SYSTEM will fail a loan that provides for negative amortization

Explanation: In no case when a payment falls short of paying the interest due at the time of making the payment may the balance of interest be added to the principal. Ark. Code Ann. § 4-57-101(c)(2). However, there appears to be a liberal interpretation of this statute when read together with Arkansas case law. Arkansas follows the general rule that negative amortization is not usury per se. Grider v. Driver, 46 Ark. 50 (1885). However, it is also well settled that compounding interest will render a contract usurious if it effectively raises the annual rate of interest above the legal rate. Strawn Furniture Company, Inc. v. Austin, 280 Ark. 69, 655 S.W.2d 397 (1983); Phillips-Reynolds Co. v. McIlroy Bank & Trust Co., 261 Ark. 437 (1939); Grider v. Driver, 46 Ark. 50 (1885). The maximum interest rate on subordinate lien loans is the lesser of 5 percentage points over the Federal Reserve discount rate or 17%. Arkansas Constitution, Art. 19, § 13, as interpreted by Bishop v. Linkway Stores, Inc. 280 Ark. 106 (1983).

Although there is an argument that as long as the annual rate of interest does not exceed the legal rate, compounding may be permissible in some form, given the specific statutory section prohibiting compounding, THE SYSTEM takes a conservative approach by failing a loan that provides for negative amortization.

Citation: Ark. Code Ann. § 4-57-101(c)(2)

FIGURE 11

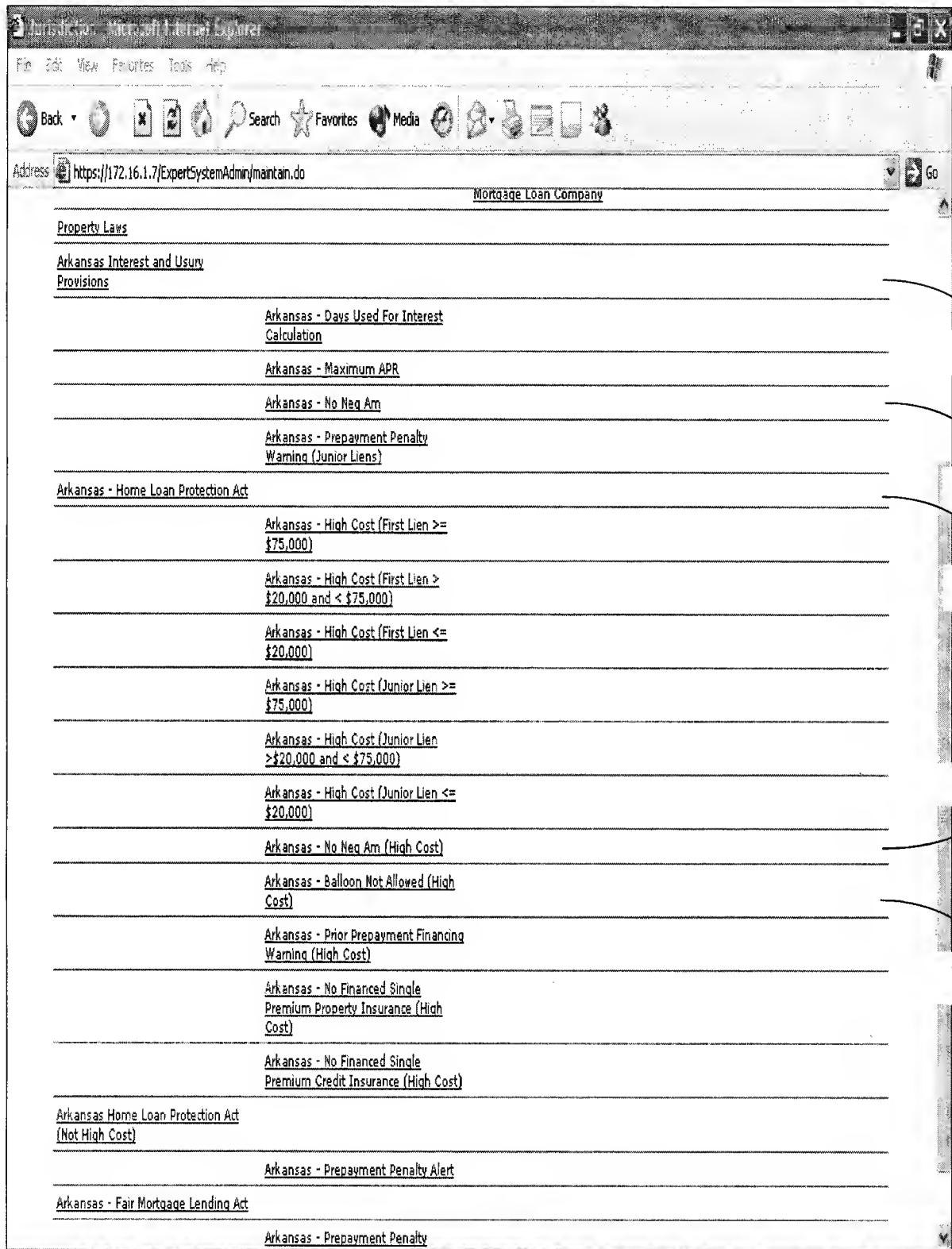


FIGURE 12

View Rule Header - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Favorites Media Go

Address: https://172.16.1.7/ExpertSystemAdmin/view.do?Command=view&Item=RuleHeader&ID=7540

RULE HEADER INFORMATION	
Name:	Arkansas - Balloon Not Allowed (High Cost)
Description:	
Source Description:	
HUDCO Group:	
HUDCO Question:	
Note:	
Process Code:	All
Start Date:	
Start Date Field:	
End Date:	
End Date Field:	
Compliance Rule:	Yes
Application Rule:	No
License Rule:	No
Owner Code:	Jurisdiction
Act:	Arkansas - Arkansas - Home Loan Protection Act Info
License:	
Owner ID:	AR
Override Rule:	.
Application Rule:	
Failure Response Code:	
Failure Response Trigger:	
Failure Response Text:	

Rule Detail

[Arkansas - Balloon Not Allowed \(High Cost\)](#)

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FIGURE 13A

View Rule Detail - Microsoft Internet Explorer

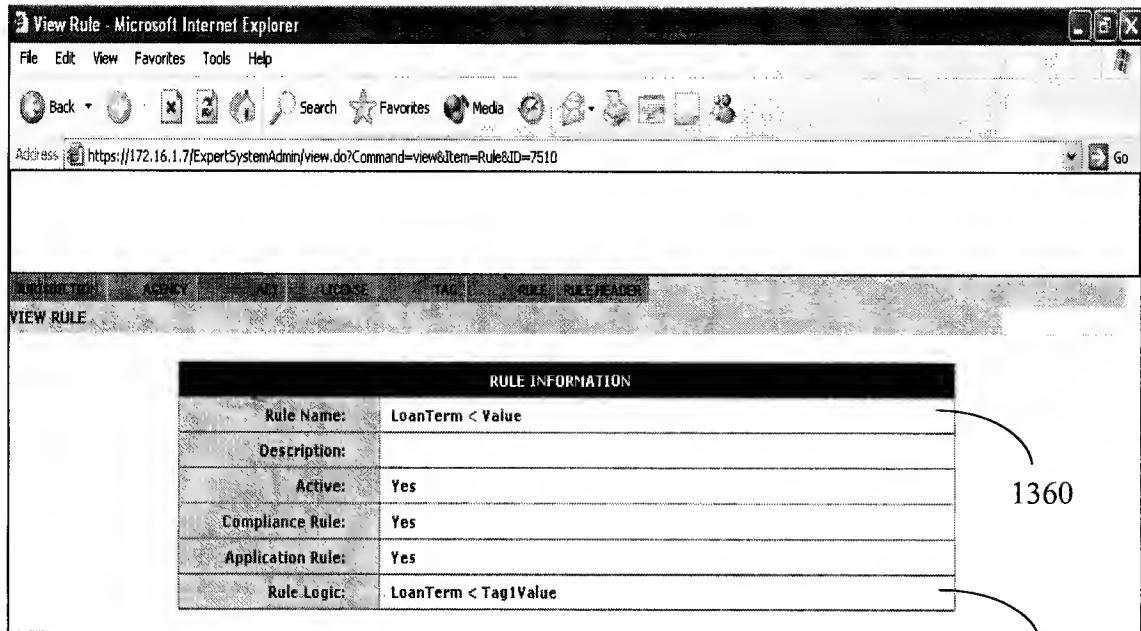
File Edit View Favorites Tools Help

Back Forward Stop Search Favorites Media

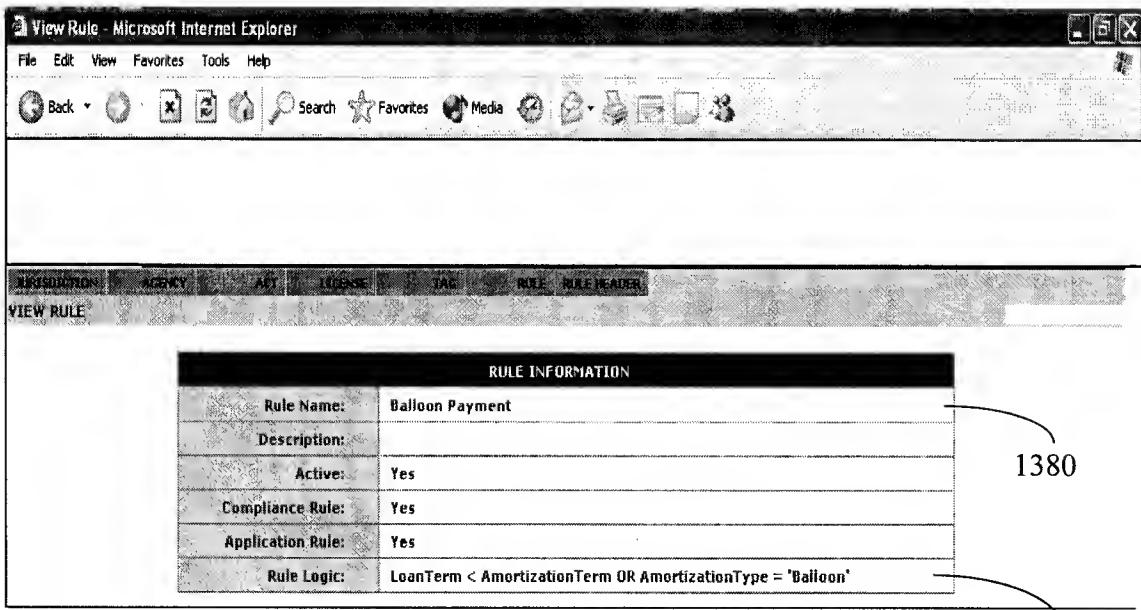
Address: https://172.16.1.7/ExpertSystemAdmin/view.do?Command=view&Item=RuleDetail&ID=12160 Go

RULE DETAIL INFORMATION	
Rule Header:	Arkansas - Balloon Not Allowed (High Cost)
Name:	Arkansas - Balloon Not Allowed (High Cost)
Description:	
Source Description:	
Order ID:	
Rule ID:	Balloon Payment Info
Tag1 Value:	
Tag2 Value:	
Application Rule ID:	LoanTerm < Value Info
App Tag1 Value:	120
App Tag2 Value:	
Operator Code:	
Parenthesis Code:	
Note Text:	
Start Date:	
Start Date Field:	
End Date:	
End Date Field:	
Failure Response Code:	FAIL
Failure Response Trigger:	True
Failure Response Text:	The Arkansas Home Loan Protection Act prohibits a balloon payment in a high cost home loan with a term of less than 10 years.
Insufficient Data Code:	
Insufficient Data Response Text:	

FIGURE 13B



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FIGURE 13C

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FIGURE 13D

View Rule Header - Microsoft Internet Explorer

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Address: https://172.16.1.7/ExpertSystemAdmin/view.do?Command=view&Item=RuleHeader&ID=7520 Go

Eunice Fajardo

VIEW RULE HEADER

RULE HEADER INFORMATION	
Name:	Arkansas - No Neg Am (High Cost)
Description:	
Source Description:	
HUDCO Group:	
HUDCO Question:	
Note:	
Process Code:	All
Start Date:	
Start Date Field:	
End Date:	
End Date Field:	
Compliance Rule:	Yes
Application Rule:	No
License Rule:	No
Owner Code:	Jurisdiction
Act:	Arkansas - Arkansas - Home Loan Protection Act Info
License:	
Owner ID:	AR
Override Rule:	
Application Rule:	
Failure Response Code:	
Failure Response Trigger:	
Failure Response Text:	

Rule Detail

Neg Am Loan Not Allowed

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FIGURE 14A

View Rule Detail - Microsoft Internet Explorer

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Address: https://172.16.1.7/ExpertSystemAdmin/view.do?Command=view&Item=RuleDetail&ID=12140 Go

RULE DETAIL INFORMATION	
Rule Header:	Arkansas - No Neg Am (High Cost)
Name:	Neg Am Loan Not Allowed
Description:	
Source Description:	
Order ID:	
Rule ID:	<u>NegAm Loan Info</u>
Tag1 Value:	
Tag2 Value:	
Application Rule ID:	
App Tag1 Value:	
App Tag2 Value:	
Operator Code:	
Parenthesis Code:	
Note Text:	
Start Date:	
Start Date Field:	
End Date:	
End Date Field:	
Failure Response Code:	FAIL
Failure Response Trigger:	True
Failure Response Text:	The Arkansas Home Loan Protection Act prohibits negative amortization in a high cost home loan.
Insufficient Data Code:	
Insufficient Data Response Text:	

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FIGURE 14B

View Rule - Microsoft Internet Explorer

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Address: https://172.16.1.7/ExpertSystemAdmin/view.do?Command=view&Item=Rule&ID=460 Go

JURISDICTION	AGENCY	ACT	LICENSE	TAC	RULE	RULE HEADER
VIEW RULE						
RULE INFORMATION						
Rule Name:	NegAm Loan					
Description:						
Active:	Yes					
Compliance Rule:	Yes					
Application Rule:	Yes					
Rule Logic:	NegAmFlag = TRUE					

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FIGURE 14C

View Rule Header - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Stop Refresh Search Favorites Media

Address: https://172.16.1.7/ExpertSystemAdmin/view.do?Command=view&Item=RuleHeader&ID=9270 Go

Eunice Fajardo

VIEW RULE HEADER

RULE HEADER INFORMATION	
Name:	Arkansas - No Neg Am
Description:	
Source Description:	
HUDCO Group:	
HUDCO Question:	
Note:	
Process Code:	All
Start Date:	
Start Date Field:	
End Date:	
End Date Field:	
Compliance Rule:	Yes
Application Rule:	No
License Rule:	No
Owner Code:	Jurisdiction
Act:	Arkansas - Arkansas Interest and Usury Provisions Info
License:	
Owner ID:	AR
Override Rule:	
Application Rule:	
Failure Response Code:	
Failure Response Trigger:	
Failure Response Text:	

Rule Detail
Neg Am Not Allowed

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FIGURE 15A

View Rule Detail - Microsoft Internet Explorer

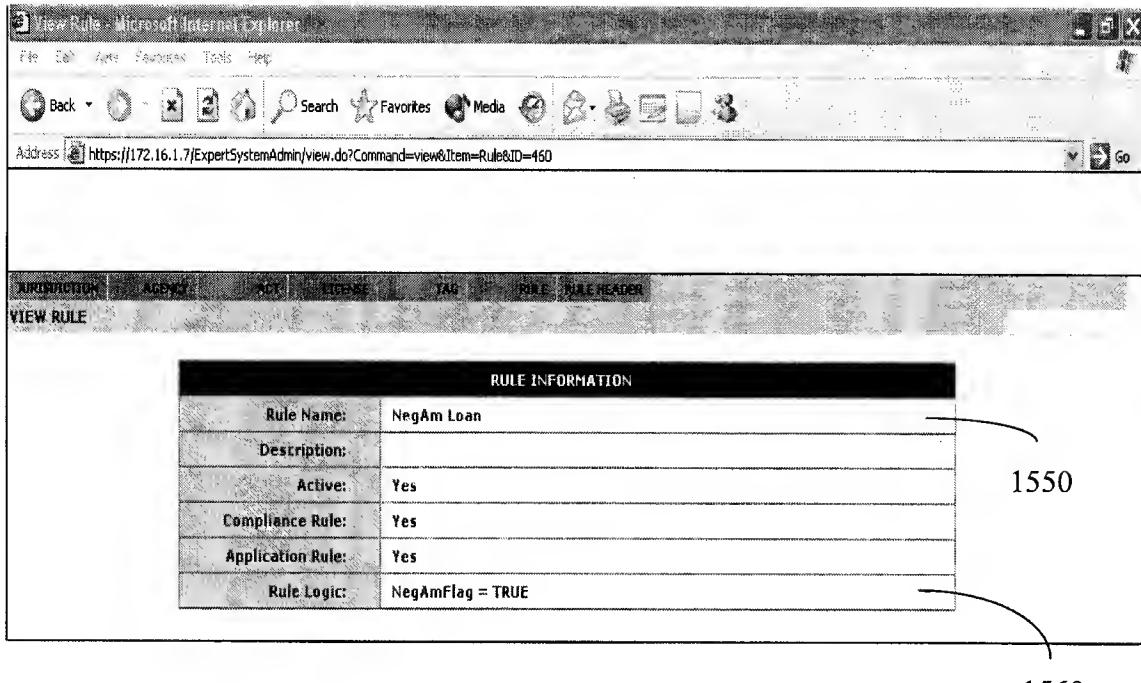
File Edit View Favorites Tools Help

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Address: https://172.16.1.7/ExpertSystemAdmin/view.do?Command=view&Item=RuleDetail&ID=14650 Go

RULE DETAIL INFORMATION	
Rule Header:	Arkansas - No Neg Am
Name:	Neg Am Not Allowed
Description:	
Source Description:	
Order ID:	
Rule ID:	NegAm Loan Info
Tag1 Value:	
Tag2 Value:	
Application Rule ID:	
App Tag1 Value:	
App Tag2 Value:	
Operator Code:	
Parenthesis Code:	
Note Text:	
Start Date:	
Start Date Field:	
End Date:	
End Date Field:	
Failure Response Code:	FAIL
Failure Response Trigger:	True
Failure Response Text:	Under the Arkansas Interest and Usury Provisions, in no case when a payment falls short of paying the interest due at the time of making the payment may the balance of interest be added to the principal. Thus, negative amortization is prohibited.
Insufficient Data Code:	
Insufficient Data Response Text:	

FIGURE 15B

**FIGURE 15C**

allowOverride="false" />

- <ServiceGroup id="LIC" name="License Review - Broker" status="FAIL" maventStatus="FAIL" return="true" allowOverride="false">
 - <ServiceItem name="License Data" status="FAIL" maventStatus="FAIL">
 <Message data="Insufficient data - missing license data section for the Broker." customer="" />
 </ServiceItem>
 </ServiceGroup>
- <ServiceGroup id="LIC" name="License Review - Lender" status="FAIL" maventStatus="FAIL" return="true" allowOverride="false">
 - <ServiceItem name="License Data" status="FAIL" maventStatus="FAIL">
 <Message data="No applicable license for 'Lender' was found." customer="" />
 </ServiceItem>
 </ServiceGroup>
- <ServiceGroup id="LIC" name="License Review - Lender" status="PASS" maventStatus="PASS" return="true" allowOverride="false" />
- <ServiceGroup id="HCOST" name="High Cost Review (AR)" status="FAIL" maventStatus="FAIL" return="true" allowOverride="false">
 - <ServiceItem name="APR Test" status="FAIL" maventStatus="FAIL">
 <Message data="The loan APR (25.445%) exceeds the (AR) High Cost APR limit, which is (11.95%)." customer="" />
 </ServiceItem>
 </ServiceGroup>
- <ServiceGroup id="HCOST" name="High Cost Review (FED)" status="FAIL" maventStatus="FAIL" return="true" allowOverride="false">
 - <ServiceItem name="APR Test" status="FAIL" maventStatus="FAIL">
 <Message data="The loan APR (25.445%) exceeds the (FED) High Cost APR limit, which is (11.95%)." customer="" />
 </ServiceItem>
 </ServiceGroup>
- <ServiceGroup id="HMDAMAP" name="HMDA Mapping" status="PASS" maventStatus="PASS" return="true" allowOverride="false" />
- <ServiceGroup id="STATE" name="State Rules Review" status="FAIL" maventStatus="FAIL" return="true" allowOverride="false">
 - <ServiceItem name="Arkansas - No Neg Am" status="FAIL" maventStatus="FAIL">
 <Message data="Under the Arkansas Interest and Usury Provisions, in no case when a payment falls short of paying the interest due at the time of making the payment may the balance of interest be added to the principal. Thus, negative amortization is prohibited." customer="" />
 </ServiceItem>
 - <ServiceItem name="Arkansas - No Neg Am (High Cost)" status="FAIL" maventStatus="FAIL">
 <Message data="The Arkansas Home Loan Protection Act prohibits negative amortization in a high cost home loan." customer="" />
 </ServiceItem>
 + <ServiceItem name="Arkansas - Balloon Not Allowed (High Cost)" status="FAIL" maventStatus="FAIL">
 <Message data="Arkansas does not allow balloons for high cost loans." customer="" />
 </ServiceItem>
 </ServiceGroup>
- <ServiceGroup id="HMDA2004" name="HMDA 2004 Review" status="WARNING" maventStatus="WARNING" return="true" allowOverride="false" />

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FIGURE 16

C:\Documents and Settings\junice.fajardo\My Documents\Change Control Process\Arkansas_HighCostB - Microsoft Internet Explorer

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Address C:\Documents and Settings\junice.fajardo\My Documents\Change Control Process\Arkansas_HighCostBalloonNegAm.xml

```

<ServiceGroup id="PCALCS" name="Perform Mortgage Calculations" status="PASS" maventStatus="PASS" return="true"
  allowOverride="false" />
- <ServiceGroup id="LIC" name="License Review - Broker" status="FAIL" maventStatus="FAIL" return="true" allowOverride="false">
- <ServiceItem name="License Data" status="FAIL" maventStatus="FAIL">
  <Message data="Insufficient data - missing license data section for the Broker." customer="" />
</ServiceItem>
</ServiceGroup>
- <ServiceGroup id="LIC" name="License Review - Lender" status="FAIL" maventStatus="FAIL" return="true" allowOverride="false">
- <ServiceItem name="License Data" status="FAIL" maventStatus="FAIL">
  <Message data="No applicable license for 'Lender' was found." customer="" />
</ServiceItem>
</ServiceGroup>
<ServiceGroup id="LIC" name="License Review - Lender" status="PASS" maventStatus="PASS" return="true"
  allowOverride="false" />
- <ServiceGroup id="HCOST" name="High Cost Review (AR)" status="FAIL" maventStatus="FAIL" return="true"
  allowOverride="false">
- <ServiceItem name="APR Test" status="FAIL" maventStatus="FAIL">
  <Message data="The loan APR (25.445%) exceeds the (AR) High Cost APR limit, which is (11.95%)." customer="" />
</ServiceItem>
</ServiceGroup>
- <ServiceGroup id="HCOST" name="High Cost Review (FED)" status="FAIL" maventStatus="FAIL" return="true"
  allowOverride="false">
- <ServiceItem name="APR Test" status="FAIL" maventStatus="FAIL">
  <Message data="The loan APR (25.445%) exceeds the (FED) High Cost APR limit, which is (11.95%)." customer="" />
</ServiceItem>
</ServiceGroup>
<ServiceGroup id="HMDAMAP" name="HMDA Mapping" status="PASS" maventStatus="PASS" return="true" allowOverride="false" />
- <ServiceGroup id="STATE" name="State Rules Review" status="FAIL" maventStatus="FAIL" return="true" allowOverride="false">
- <ServiceItem name="Arkansas - No Neg Am" status="FAIL" maventStatus="FAIL">
  <Message data="Under the Arkansas Interest and Usury Provisions, in no case when a payment falls short of paying
    the interest due at the time of making the payment may the balance of interest be added to the principal. Thus,
    negative amortization is prohibited." customer="" />
</ServiceItem>
- <ServiceItem name="Arkansas - No Neg Am (High Cost)" status="FAIL" maventStatus="FAIL">
  <Message data="The Arkansas Home Loan Protection Act prohibits negative amortization in a high cost home loan."
    customer="" />
</ServiceItem>
+ <ServiceItem name="Arkansas - Balloon Not Allowed (High Cost)" status="FAIL" maventStatus="FAIL">
  <Message data="Arkansas does not allow balloon payments for high cost loans." customer="" />
</ServiceItem>

```

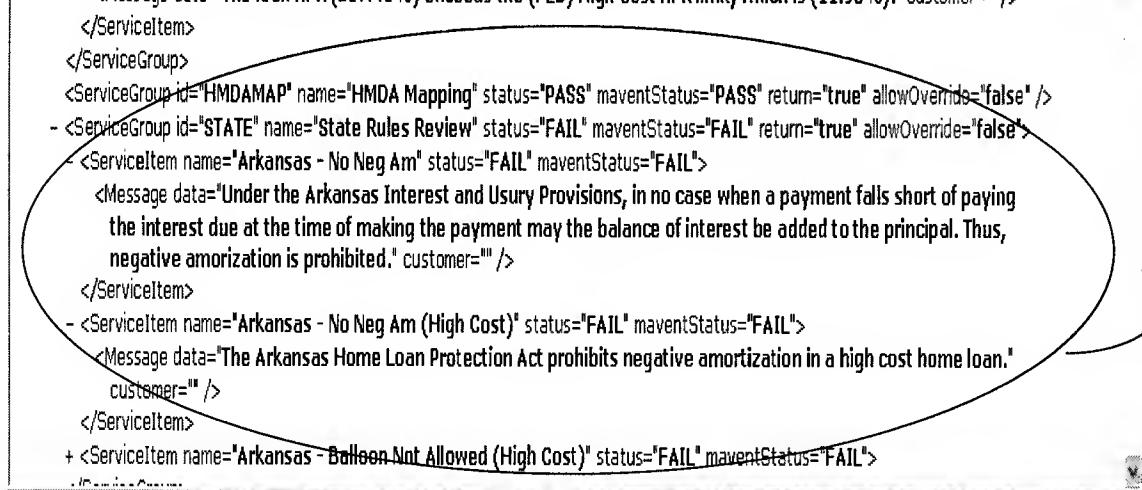


FIGURE 17

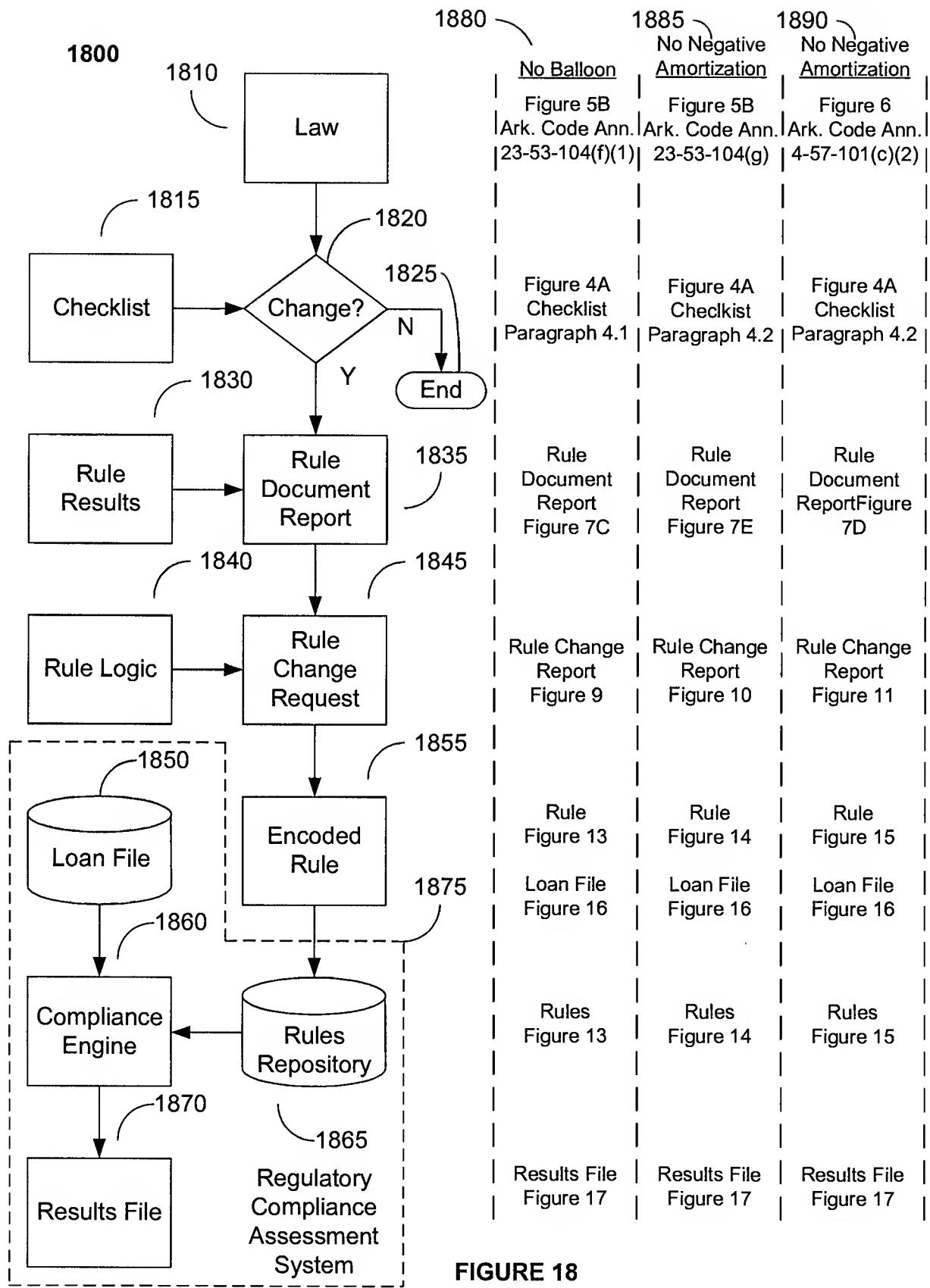


FIGURE 18